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STATEMENT OF  
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ON  
"IMPACT OF ADMINISTRATIVE BUDGET PROCEDURES  
ON THE INDEPENDENCE OF OFFICES OF  
INSPECTOR GENERAL"

Mr. Chairman and members of the Committee, I am pleased to appear before you today to discuss the results of our review of executive agency administrative budget procedures and their impact on the independence of agency inspectors general (IGs). Our review was conducted from January to July 1984 at 17 statutory inspectors general offices and focused on the IG budget requests for fiscal years 1982-85. We met with the IG and staff in each agency to document the budget process and to obtain their opinions on the effect of the process on office of inspector general (OIG) independence. We also interviewed agency officials who review the OIG budget requests to discuss their role and the basis for changes to the OIG budget. Finally, we met with Office of Management and Budget (OMB) budget analysts to discuss their role in the review process.

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STATUTORY PROVISIONS  
FOR INDEPENDENCE

GAO shares your concern for maintaining the independence of the inspectors general. GAO supported passage of the Inspector General Act of 1978 and other legislation which established Offices of Inspectors General. The intent of the legislation was to create independent and objective units to conduct and supervise audits and investigations relating to agency programs and operations. The legislation directs that the IGs report to and be under the general supervision of the head of the agency or, to the extent delegated, the officer next in rank below the agency head; and generally prohibits the agency head or officer next in rank from preventing an IG from conducting any audit or investigation. The IGs are required to provide the Congress with semi-annual reports (annual reports for the Department of State) summarizing OIG activities.

OIGs are required to comply with the Comptroller General's Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. Independence is cited as one of the four general standards for audit organizations and as such is meant to assure that opinions, conclusions, judgments and recommendations will be impartial and will be viewed as impartial by knowledgeable third parties. The legislation contains no provisions relating to how the OIGs obtain staffing or budget authority. Consequently, the OIGs follow budget procedures established by their agencies and are one component of the agencies' requests to OMB and the Congress.

In reviewing agency budget procedures followed by IGs we did not develop any evidence that the current procedures have specifically prevented IGs from conducting audits or investigations they deemed necessary. However, we found four practices which, if changed, would enhance Office of Inspector General independence. They are:

- (1) imposition of ceilings for staffing and/or budget authority in agency budget instructions to OIGs;
- (2) budget reviews, by agency officials who are subject to audit or investigation by the IG, that result in only their modified version of the IG budget being submitted to the agency head for decision;
- (3) reprogramming of funds away from the OIG to other agency operations; and
- (4) limited communications by OIG's of their resource needs to the Office of Management and Budget and the Congress.

#### FOUR AGENCIES IMPOSE CEILING RESTRICTIONS

As part of their normal budget process, four agencies--the Departments of Health and Human Services and Labor, the Agency for International Development and the National Aeronautics and Space Administration--imposed ceilings for staffing and/or budget authority in budget instructions to their OIGs. The IGs were instructed not to exceed these ceilings in the budget requests. Four other agencies--the Departments of the Interior, Defense and Energy, and the Environmental Protection Agency--

gave the OIGs target figures which could be exceeded with adequate justification. In contrast, nine agencies did not place restrictions on the OIG budget request.

Instructions which predetermine the maximum amount of resources OIGs can request have the potential for precluding them from identifying and receiving the minimum level of resources necessary to meet their audit and investigation responsibilities. We believe procedures which allow the IGs to personally present and justify their desired budget directly to the agency head, enables them to request and advocate more strongly for needed resources. These procedures would enhance the IG's independence.

AGENCY REVIEW PROCESS HAS  
POTENTIAL FOR IMPAIRING  
OIG INDEPENDENCE

During 1984 Senate Appropriations Committee hearings the committee expressed concern that the budget for the Inspector General at the General Services Administration had been relegated to review by a Budget Review Board that included GSA administrators whose operations were under audit or investigation by the Inspector General. The committee believed this was inappropriate, and bordered on a conflict of interest.

We found somewhat similar procedures currently in effect at other agencies. For example, the Department of Commerce OIG requested an increase of \$700,000 and 12 staff positions to expand audits of automated data processing (ADP) systems in fiscal year 1985. The OIG cited the need for a more independent approach to

auditing over 900 ADP systems in the Department costing over \$200 million annually to operate. The Department of Commerce budget office analyzed the OIG budget request and submitted its analysis to the Deputy Secretary through the Assistant Secretary for Administration. The analysis notes that ADP audits are performed by the Office of Information Resource Management under the Assistant Secretary for Administration. Based on this analysis the Deputy Secretary denied the IG's requested increase in resources for ADP audits. The appearance of a conflict of interest could be created by the Assistant Secretary influencing the level of OIG resources for ADP audits while also having certain ADP program responsibilities.

A similar situation occurred at the Veterans Administration (VA). The Office of Program Planning and Evaluation (OPPE) analyzed the OIG budget request as part of the VA long-range plan for fiscal years 1985-1989. OPPE recommended that OIG resources could be held at the 1984 level if OPPE were given responsibility for certain evaluation efforts. OPPE is part of the VA management and administration budget account, which also includes the OIG's funding, and competes with the OIG for resources. The appearance of a conflict of interest could be created by having an office in a position to influence OIG resources which also competes with OIG for resources.

Nine agencies subject the OIG budget request to multiple layers of review, or review by a panel of agency officials. Program officials who are subject to OIG audit and investigation or who compete with the OIG for resources, participate in OIG

budget review processes and make recommendations on OIG resource levels.

To ensure informed decisionmaking, the agency heads should be free to solicit information and advice from various agency sources. GAO believes that when agency heads make decisions on the IG's budgets, they should review the IG's proposed budgets along with any comments from other organizational entities, rather than reviewing IG budgets that have already been modified by these entities. This will more clearly reflect that agency heads are restricting actual decisionmaking on the IG budget to themselves or their immediate deputies.

In contrast to these examples, under the Department of Transportation's procedures, the OIG budget is submitted directly to the agency head and then to OMB without additional agency review. GAO believes this procedure enhances the appearance of independence.

REPROGRAMMING OF FUNDS  
COULD INTERFERE WITH  
OIG OPERATIONS

The OIGs receive funds either through separate appropriation accounts or as funds commingled in accounts with other agency activities. Seven statutory IGs receive their funds from separate appropriation accounts. Under separate appropriations, agency management cannot transfer funds into or out of the OIG's account without statutory authority. In addition, the agency is bound to allot funds as identified in the final appropriations. IGs operating under separate appropriation accounts believe this enhances the appearance of independence.

The other ten IGs receive their funding commingled with funds for other agency activities. When OIG funds are appropriated as part of larger accounts, the agency is not legally bound to allot funds to each office in the proportions identified in the budget request, and can reprogram funds among the various offices within the account. Reprogramming can work to the advantage of the OIG by resulting in additional funding for OIG operations. IGs who operate from these accounts prefer to ask their agencies for additional funds during the fiscal year rather than request a supplemental appropriation. However, reprogramming which results in decreased OIG funding provides the potential for impairing OIG independence by restricting the OIG's resources.

The vulnerability of commingled OIG funds to agency control can be demonstrated by a recent decision at the Agency for International Development (AID). The AID inspector general decided to reassign staff from Washington, D.C. to Honduras. To finance this move, the IG proposed using \$500,000 of IG funds budgeted for contracting services in Cairo, Egypt. The AID Controller, who approves all budget actions of this type, did not approve the IG's request. According to the Controller, the IG needed to make a more extensive cost projection before relocation could be approved. The Controller subsequently reduced the OIG budget by reprogramming the \$500,000 from the OIG budget to other agency activities.

Three other OIGs in the commingled funding category have had funds reprogrammed out of their budgets in recent years.

While we recognize that the motivation for reprogramming may be for economic and efficient agency operation, reprogramming actions such as these illustrate the potential vulnerability of the OIG budget to agency control when OIG funds are appropriated as part of a larger appropriation. We believe that funding procedures, such as separate appropriations or appropriation language establishing minimum funding levels (floors), provide the OIGs with a greater degree of control over their resources after final appropriations are enacted, and enhance the appearance of OIG independence.

INCREASED ACCESS TO THE  
CONGRESS WOULD FURTHER  
OIG INDEPENDENCE

The current budget procedures for IGs with commingled funds provide these IGs only limited means of communicating their resource needs to OMB and the Congress. Under the current process, agency submissions to OMB do not always reflect OIG requests and IGs do not always have the opportunity to present their needs before the Congress.

When an agency reduces an OIG budget request and submits the revised request to OMB, OMB is not routinely told the level of the OIG's original request. OMB examiners may constrain the OIGs capabilities by reducing the request without knowing whether or not the agencies have already reduced the OIG request. The amount of funding ultimately appropriated for OIGs depends on legislative action taken by the Congress on the OMB submission.



The IGs at agencies with commingled funding do not necessarily testify before the Appropriations Committees. These IGs may be represented by an Assistant Secretary during the appropriations hearings and, consequently, do not have the opportunity to directly address their needs before the Congress or to respond to congressional inquiries.

The constraints on OIG resources are having an impact on audit and investigation activities. Some OIGs have made their position clear in internal agency documents but the budget process does not always allow them to effectively communicate these needs to OMB, the Congress, or both.

The Small Business Administration (SBA) OIG budget request to the agency for fiscal year 1985 is an example. The OIG requested a staff increase from 130 full-time permanent (FTP) staff positions in fiscal year 1984 to 206 FTP for fiscal 1985. The requested staff increase was based on the need to perform statutorily required one-year audits of Small Business Investment Companies and to establish a periodic examination program for non-bank lender and certified development companies, also required by statute.

The SBA Administrator forwarded a request to OMB for 192 FTPs for the OIG. As part of the agency budget submissions to the Congress, the request was reduced to the fiscal year 1984 level, and there is no indication in the budget process that the Congress was aware of such a reduction.

Another example of resource constraints is the reduction in National Aeronautics and Space Administration (NASA) staff

experienced by the OIG. The IG requested a staff increase during fiscal year 1984. The request for the increased staff level was denied within the agency, and as in the previous example, there is no indication in the budget process that the Congress was aware of such a reduction.

Since the SBA and NASA IGs do not testify before the Congress, the budget process does not ensure that the Congress will know about their resource requests or shortfalls.

#### OUR RECOMMENDATIONS

As a result of our review, we are recommending changes in the budget processes which we believe would enhance the independence of the 17 Offices of Inspectors General.

We are recommending that the Secretary or Administrator in each of the agencies review unmodified budget requests, in addition to any advice and counsel they may request from other agency officials, in order to clearly reflect that ultimate decisionmaking on the OIG budget is restricted to themselves or their deputies. We believe this will enhance the independence of the IGs, and we also believe that it will strengthen the relationship between the IGs and the agency heads.

We are also recommending that congressional authorizing and appropriations committees specify a funding floor for OIG activities in appropriations where OIG's funds are commingled with funds for other activities, and that the committees request each Inspector General to testify before the Congress in support of their OIG budget requests.

Mr. Chairman, we hope our report will be useful in enhancing the independence of agency Inspectors General. We look forward to working closely with the Committee on this matter in the future as we have in the past. We thank the Chairman for these useful hearings which stress the need to assure continued independence of the IGs. This concludes my statement. I will respond to any questions at this time.